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SIPDIS

EEB FOR A/S SULLIVAN
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EUR FOR DAS BRYZA

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SUBJECT: PRIME MINISTER WELCOMES U.S. HELP ON ENERGY

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Classified By: AMBASSADOR WILSON FOR REASONS 1.4 (B) AND (D)

11. (C) Summary. On October 30, Department of Energy Acting Deputy Secretary Jeffrey Kupfer led a U.S. delegation to discuss Turkey's energy needs and its strategic role as a transit country with Prime Minister Erdogan. Following-up on the President's October 8 letter to the PM (reftel), Kupfer offered to send a technical-level delegation to Turkey in December to identify areas for cooperation in the energy sector. He also discussed the idea of a multi-lateral financing mechanism to support energy investment in Turkey and help diversify its energy mix away from natural gas. The PM assured the delegation that the development of the Southern Corridor is a strategic priority for Turkey but questioned whether Azeri gas would be sufficient. He indicated Turkmenistan should be a complimentary source gas for Turkey and Europe and was positive about its development. He warmly welcomed all U.S. offers of cooperation. End summary.

12. (C) October 30-31, a high level USG delegation discussed Turkish and European energy needs with Prime Minister Erdogan, Foreign Minister Babacan, Energy Minister Guler, Treasury Minister Simsek and U.S. and Turkish companies (other meetings are reported separately.) Besides Deputy Secretary Kupfer the U.S. delegation included Overseas Private Investment Corporation (OPIC) President Robert Mosbacher, Trade and Development Agency Director Larry Walther, Export-Import Bank Chief Operating Officer John McAdams, Special Envoy for Eurasian Energy C. Boyden Gray, and Ambassador.

13. (C) Deputy Secretary Kupfer said his team's visit follows up the President's letter of early October, and its interagency composition reflects the priority we attach to the issues the letter raised. The U.S. wants now to activate the Southern Corridor, and the President has been in touch with producer, transit and consumer country leaders. We want to move the ball forward with as many concrete steps as possible in the next several months. Beyond that, though the U.S. players will change, our interests will not, and Turkey could expect our work to continue.

14. (C) Kupfer recognized Turkey's need to strike a balance between domestic energy demand, the needs of downstream purchasers and the economics of pipeline financing and construction. The U.S. delegation's visit and other efforts are designed to help Turkey achieve that balance. To

that end, the U.S. proposes to send a technical delegation to Turkey in mid-December to evaluate Turkey's priorities for energy sector investment. Kupfer noted the fastest gains could be made in energy efficiency and cited a rough estimate that a 10% increase in efficiency could yield a saving of 6 billion cubic meters of gas annually.

15. (C) Kupfer and OPIC President Mosbacher described our interest in working with the international financial institutions to establish a financing mechanism to accelerate investment in Turkey's energy sector. Mosbacher said that OPIC and EXIM are prepared to step in and fill the current private sector financing gap for energy sector projects. OPIC can offer up to USD 500 million as part of the multi-lateral lending facility, and EXIM COO McAdams said EXIM can do likewise. Mosbacher recognized the urgent need for investment to avoid energy shortages in the near future, but noted that accelerated financing would depend on the GOT's ability quickly to identify, tender and award energy sector projects.

16. (C) PM Erdogan noted the long history of energy cooperation between the U.S. and Turkey. Referring to the upcoming U.S. elections, he said that governments come and go but our strong partnership on energy would remain unchanged. He appreciated President Bush's letter, which he described as justifying Turkey's concerns about its own energy supply, and said he will reply positively soon. Diversifying Turkey's gas sources is a matter of urgency because gas contracts with Russia (6 bcm) and Algeria (4 bcm) will expire in 2011. He asked for U.S. support in Turkey's discussions with Qatar and

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Saudi Arabia to get more gas and welcomed U.S. assistance in reducing Turkey's dependence on natural gas. Erdogan stressed the importance of moving quickly to develop alternative energy options including renewables, hydro and nuclear. Given the global economic crisis, U.S. assistance to help attract financing to Turkey's energy sector was especially important. He welcomed the idea of the assessment team and said Turkey is willing to cooperate in all areas.

17. (C) Erdogan said that opening up the Southern Corridor is important to Turkey because it ensures secure energy supplies for Turkey and Europe. The crisis in Georgia has elevated the importance of energy diversification and gave the Southern Corridor new momentum which we shouldn't lose. Erdogan stressed that Turkey fully supports the Nabucco project and welcomed the visit of EU Energy Commissioner Piebalgs to Turkey Nov 6 as a sign of progress on this project. However, Erdogan was skeptical about gas availability for Nabucco. The focus for gas supply has been Azerbaijan but Azeri gas will not be sufficient for Turkey's needs and for Europe's. Perhaps, in the longer-term Azeri gas could be sufficient but in the short term, it is not, he argued.

18. (C) Erdogan indicated that Turkey is looking toward Turkmenistan to complement Azeri gas for the Southern Corridor. He had positive talks with Turkmen President Berdimuhamedov who reportedly promised 10 bcm for Turkey on the condition that Turkey made the transit arrangements from the Turkmen border. Trans-Caspian or trans-Iranian routes are available. Erdogan said the recently released Gaffney-Cline study shows that Turkmen gas reserves are "well beyond" previous expectations, and this is good news for the Southern Corridor.

19. (C) Comment: This meeting with Erdogan was positive and upbeat. The seniority and interagency diversity of the U.S. team sent a welcome signal of seriousness, and Erdogan responded in that vein. He clearly welcomed our ideas to help on energy alternatives and their financing, especially in the current global climate, and he was strongly supportive of the Southern Corridor. Key now will be follow up. End Comment.

¶10. (U) The delegation cleared this text prior to departure.
WIENER